

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1142-01
Bill No.: HB 342
Subject: Agriculture and Animals; Taxation and Revenue - Sales and Use
Type: Original
Date: March 12, 2013

Bill Summary: This proposal would create an exemption from state and local sales and use taxes for farm products sold at farmers' markets.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund	(Unknown)	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
School District Trust *	\$0	\$0	\$0
Conservation Commission	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)
Parks, and Soil and Water	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)

* Reduced income and reduced transfers net to zero.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

FISCAL ANALYSIS

ASSUMPTION

Section 144.527, RSMo. - Sales Tax Exemption:

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials noted this proposal would provide a tax exemption on sales at farmers markets. According to information on the United States Department of Agriculture website, Missouri has about 141 of the 7,175 national farmers markets, or about 2.0%. The same source estimates national sales at over \$1.2 billion annually. Using these figures suggests Missouri sales of about \$24 million annually. Some of these sales are probably already exempt, but the amount is unknown. A state sales tax exemption could reduce General and Total State Revenues by the following amounts:

General Revenue Fund	\$720,000
School District Trust Fund	\$240,000
Conservation Commission Fund	\$30,000
Parks, and Soil and Water Fund	\$20,000

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal would exempt all sales of farm products sold at a farmers' market from state and local sales and use taxes.

The proposal would define "farm products" as any fresh fruits, vegetables, mushrooms, nuts, shell eggs, honey or other bee products, maple syrup or maple sugar, flowers, nursery stock and other horticultural commodities, livestock food products, including meat, milk, cheese, and other dairy products, food products of "aquaculture," including fish, oysters, clams, mussels, and other molluscan shellfish taken from the waters of the state. The definition would include products from any tree, vine, plant, flowers, or any of the products listed that were processed by the participating farmer, including, but not limited to, baked goods made with farm products.

The proposal would define a "farmers' market" as a cooperative or nonprofit enterprise or association that operates principally as a common marketplace for a group of farmers to sell farm products directly to consumers, generating household income.

Fiscal impact

According to a study completed by the Missouri Department of Agriculture, estimated annual sales at Missouri farmers' markets are \$14.5 million. Most of the sales are food related and are currently taxed at the reduced food sales tax rate. The estimated state sales tax loss is \$228,000, and local governments would also have a negative impact.

DOR officials did not provide an estimate of costs for this proposal, and **Oversight** assumes any cost to implement this proposal could be absorbed with existing resources.

ASSUMPTION (continued)

For fiscal note purposes, **Oversight** will include an unknown revenue reduction for the General Revenue Fund since a substantial but unknown part of the reported sales are food and related items which are subject only to the 1% sales tax; none of that 1% tax is deposited into the General Revenue Fund.

Oversight assumes the fiscal impact of this proposal, for other funds and entities, on \$14.5 million annual sales could be calculated as follows:

<u>Fund or entity</u>	<u>Sales Tax Rate</u>	<u>Revenue Reduction</u>	
		<u>Annual</u>	<u>Ten Months</u>
School District Trust	1.000%	\$145,000	\$120,833
Conservation Commission	0.125%	\$18,125	\$15,104
Parks, and Soil and Water	0.100%	\$14,500	\$12,083
Local Governments *	3.800%	\$551,000	\$459,167

* The 3.8% average rate for local governments was computed by Oversight based on collections reported by the Department of Revenue.

Oversight will include a revenue reduction less than \$100,000 per year for the Conservation Commission Fund and the Parks, and Soil and Water Fund. Oversight notes that the revenue reduction for the School District Trust Fund would result in reduced transfers to local school districts in addition to the direct revenue reduction greater than \$100,000 per year for local governments.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
<u>Revenue reduction - DOR</u>			
Sales Tax exemption			
Section 144.527	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue reduction - DOR</u>			
Sales Tax exemption			
Section 144.527	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>
PARKS, AND SOIL AND WATER FUND			
<u>Revenue reduction - DOR</u>			
Sales Tax exemption			
Section 144.527	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
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SCHOOL DISTRICT TRUST FUND

<u>Revenue reduction - DOR</u> Sales Tax exemption Section 144.527	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
<u>Transfers - School Districts</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>	More than <u>\$100,000</u>

ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
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LOCAL GOVERNMENTS

<u>Transfers - School District Trust Fund</u>	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
<u>Revenue reduction - DOR</u> Sales Tax exemption Section 144.527	(More than <u>\$100,000</u>)	(More than <u>\$100,000</u>)	(More than <u>\$100,000</u>)

ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	(More than <u>\$100,000</u>)	(More than <u>\$100,000</u>)	(More than <u>\$100,000</u>)
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FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which operate farmers' markets or sell specified items at farmers' markets.

SS:LR:OD

FISCAL DESCRIPTION

This proposal would create an exemption from state and local sales and use taxes for specific farm products sold at farmers' markets.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration - Division of Budget and Planning
Department of Revenue



Ross Strobe
Acting Director
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